

Message Text

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ORIGIN EA-06

INFO OCT-01 ISO-00 EB-03 SP-02 L-01 /013 R

DRAFTED BY EA/PHL:RTWILLNER:KAD

APPROVED BY EA/PHL:BAFLECK

EB/ODF:CSTOCKER

EA:LEDMOND

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R 212205Z FEB 75

FM SECSTATE WASHDC

TO AMEMBASSY MANILA

C O N F I D E N T I A L STATE 039877

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LIMDIS

E.O. 11652: GDS

TAGS: EAID, EFIN, RP

SUBJECT: PROPOSED ADB COST OVERRUN LOAN

1. PROPOSAL FOR ADB LOAN TO FINANCE COST OVERRUNS IN MINDANAO POWER PROJECTS, REPORTED MANILA 1813, WILL REQUIRE CAREFUL JUSTIFICATION IF IT IS TO OVERCOME OPPOSITION IN NAC.

2. RECOGNIZE THAT POWER SYSTEM COSTS HAVE UNDERGONE DRASTIC INCREASE IN PAST FEW YEARS, WITH, FOR EXAMPLE, CONDUCTOR PRICES DOUBLING 1973-74. ALSO UNDERSTAND THAT AID-FINANCED RURAL ELECTRIFICATION PROJECTS WILL DEPEND HEAVILY ON GENERATION AND TRANSMISSION FACILITIES COVERED BY ADB LOAN.

3. HOWEVER, TREASURY HAS TRADITIONALLY OPPOSED MOST COST OVERRUN LOANS, EXCEPT WHEN OVERRUNS RESULT FROM CURRENCY DEVALUATIONS. IT HAS BEEN TREASURY POSITION THAT PROJECTS SHOULD BE SCALED DOWN OR OVERRUNS ABSORBED BY DEBTOR COUNTRY. IN PRESENT CASE, THESE ARGUMENTS ARE LIKELY TO BE REINFORCED BY EXTRAORDINARILY HIGH PHILIPPINE EXCHANGE RESERVES, WHICH RESULT PARTLY FROM BORROWINGS, AND BY TREASURY'S ALREADY
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ESTABLISHED DESIRE TO REDUCE CONCESSIONARY LENDING TO

PHILIPPINES.

4. EMBASSY REQUESTED TO PROVIDE ITS RECOMMENDATIONS WITH
ANY ADDITIONAL BACKGROUND AVAILABLE, INCLUDING ESTIMATE OF

WHAT POSITION MAY BE EXPECTED FROM OTHER ADB MEMBERS.

5. ALSO REQUEST VIEWS ON ABILITY AND WILLINGNESS OF GOP
TO ASSUME PART OF FX COSTS BY WAY OF COMPROMISE.

KISSINGER

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